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RUEHSW/AMEMBASSY BERN PRIORITY 1417  
RUEHTI/AMEMBASSY TIRANA PRIORITY 4308  
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TAGS: EPET ENRG ETTC PREL IR SZ GR TU IT

SUBJECT: ITALIAN EDISON DENIES ROLE IN SWISS FIRMS PURCHASE  
OF IRANIAN NATURAL GAS

REF: A. STATE 126979

1B. STATE 22311

1C. 06 ROME 1667

Classified By: Econ Counselor William R. Meara for  
Reasons 1.4 (b) and (d)

11. (C) Summary. Econoff delivered to Edison Italia Ref A  
demarche regarding Swiss firm EGL's plans to purchase Iranian  
natural gas for export to Switzerland using the  
Turkey-Greece-Italy (TGI) natural gas pipeline. Edison's  
Director for Institutional and Regulatory Affairs, Giampaolo  
Russo, denied any involvement by Edison in EGL's plans to  
import Iranian natural gas, pointing out that as described in  
Ref A, the Iranian natural gas will not pass through  
pipelines controlled by Edison. Russo also said the TGI  
pipeline does not have the capacity to accommodate additional  
natural gas, Iranian or otherwise. Turning to the question  
of Edison's possible investment in Iran's South Pars natural  
gas field, Russo said an investment is in the very early  
stages of development, and that Edison does not plan to use  
the TGI pipeline to import Iranian natural gas if Azeri  
natural gas production comes on-line as scheduled. Finally,  
Russo said Edison is interested in investing in natural gas  
production in northern Iraq, but did not elaborate on when or  
how Edison might start business in Iraq. End summary.

12. (C) Econoff delivered Ref A points September 19 to  
Giampaolo Russo, Edison's Director for Institutional and  
Regulatory Affairs. (Note. Edison is based in Milan. Russo  
is the highest-ranking Edison official in Rome. End note.)  
Responding to Ref A points, Russo said Edison only controls  
the final portion of the TGI pipeline and that, if the export  
goes forward as described, the Iranian natural gas will not  
pass through Edison-controlled pipelines. He elaborated that  
Edison is a 50/50 partner with DEPA, the Greek national  
natural gas company, in the Poseidon pipeline, which will  
connect Greece and Italy. Poseidon will receive natural gas  
from the Greek national gas pipeline system, which will  
receive Azeri natural gas imported via Turkey. Russo said  
that DEPA may opt to build a pipeline from the TGI north into  
Albania to facilitate the sale of Azeri gas to Albania or  
other Balkan natural gas customers. While it may eventually  
be possible to transfer natural gas from the TGI to EGL's  
Trans Adriatic Pipeline (TAP), Edison will not have a role in  
these transfers because the natural gas will not transit  
through the Poseidon pipeline, the only part of the TGI  
project in which Edison is investing.

13. (C) Setting aside the issue of whether or not the

natural gas shipment described in Ref A will pass through pipelines controlled by Edison, Russo pointed out that the TGI pipeline does not have the capacity to accommodate the shipment of an additional 5.5 billion cubic meters a year (bcm/year) of natural gas. As reported Ref C, the capacity of the TGI at the Turkey/Greece border will be 10-11 bcm. Of this, 2-3 bcm will be used by DEPA in Greece or will be re-exported by DEPA to Albania. The remaining 8 bcm will belong to Edison, and will be shipped to Italy using the Poseidon pipeline, which has a capacity of 8 bcm. Edison plans to use this 8 bcm of gas to generate power in Italy. Russo acknowledged that Edison and DEPA plan to increase Poseidon's capacity to 9 bcm by adding an additional compression station, but pointed out that the remaining one bcm will be insufficient to accommodate the 5.5 bcm of Iranian gas EGL needs to ship to Switzerland.

14. (C) Responding to a question for Econoff, Russo said Edison has no plans to put Iranian gas into Poseidon, "if there is Azeri gas available, we will not use Iranian gas." If it appears that Azeri gas will not be available, Edison is preparing to look at other sources of gas, including northern Iraq and Iran. Russo said that as a medium-sized energy company, Edison is forced to do business in countries that the majors avoid, and that Edison recently signed an MOU with the Iranian National Oil Company (NIOC) for a feasibility study for the development of natural gas production at NIOC's South Pars natural gas field, but stressed that talks were at a very early stage. Our understanding from Russo is that Edison plans for investments in northern Iraq are at an even earlier stage. Econoff delivered Ref B points on the Iran Sanctions Act (ISA) noting the 20 million dollar threshold for ISA applicability and Congressional interest in foreign companies' investments in Iran. Russo said he understood that Edison's activities in Iran might fall within the activities covered by ISA, but indicated that it will be several years before Edison actually has activities on the ground in Iran. He asked how ISA applied to the investments by Eni and ENEL (the Italian oil/gas and electricity parastatals) in the Iranian energy sector. Econoff replied that although the language of the legislation appears to allow for prosecution of a foreign company for ISA violations, this hasn't happened yet. That said, there is increasing pressure for ISA to be applied, and Edison should avoid putting itself in a position where it could be prosecuted for violations of ISA.

15. (C) Comment. Russo's description of the pipelines that could be used to ship Iranian gas to Switzerland and their capacity makes a fairly compelling case for his assertion that Edison will not be involved in the gas shipment described in Ref A. That said, it is clear that Edison is positioning itself for an eventual entry into the Iranian energy sector. End comment.

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